MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

DAU5018 – AUDITING 1

(All sections / Groups)

16 OCTOBER 2015
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 7 pages only excluding the cover page.
2. Answer ALL questions for Section A, B and C.
3. Answers for Sections A and B should be shaded on the OMR sheet provided.
4. For Section B, shade "**A**" for **TRUE** statement and shade "**B**" for **FALSE** statement.
5. For Section C, please write your answers in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (15 marks). Each question carries 1 mark. Answers for this section should be written on the answer booklet provided.

1. The purpose of the introductory paragraph in the standard unqualified report is:

   A. to identify that the type of opinion issued is unqualified.
   B. to identify the financial statements audited and the dates and time periods covered by the report.
   C. to indicate an accounting firms followed applicable audit standards.
   D. to indicate all the financial statements are in accordance with GAAP.

2. As a result of management's refusal to permit the auditor to physically examine inventory, the auditor has not accumulated sufficient appropriate evidence to conclude whether financial statements are stated in accordance with GAAP. The auditor must depart from the unqualified audit report because:

   A. the financial statements have not been prepared in accordance with GAAP.
   B. the scope of the audit has been restricted by circumstances beyond either the client's or auditor's control.
   C. the auditor has lost independence.
   D. the scope of the audit has been restricted.

3. An accounting firm may wish to emphasize specific matters regarding the financial statements even though an unqualified opinion will be issued. Normally, such explanatory information is:

   A. included in the scope paragraph.
   B. included in the opinion paragraph.
   C. included in a separate paragraph in the report.
   D. included in the introductory paragraph.

4. The introductory paragraph of the standard audit report states that the financial statements and the opinion expressed about those statements are _____.

   A. the responsibility of the auditor
   B. the responsibility of management
   C. the joint responsibility of management and the auditor
   D. none of the above

Continued.....

5. Which of the following is **LEAST LIKELY** to cause uncertainty about the ability of an entity to continue as a going concern?

   A. A client's lawsuit against another company which claims the other company has infringed on its patent.
   B. Loss of major customers.
   C. Significant recurring operating losses.
   D. Working capital deficiencies.

6. Auditors accumulate evidence to _____.

   A. defend themselves in the event of a lawsuit
   B. justify the conclusions they have otherwise reached
   C. satisfy the requirements of the Securities Acts of 1933 and 1934
   D. enable them to reach conclusions about the fairness of the financial statements

7. Which of the following is **NOT** one of the reasons that auditors provide only reasonable assurance on the financial statements?

   A. The auditor commonly examines a sample, rather than the entire population of transactions.
   B. Accounting presentations contain complex estimates which involve uncertainty.
   C. Fraudulently prepared financial statements are often difficult to detect.
   D. Auditors believe that reasonable assurance is sufficient in the vast majority of cases.

8. Which of the following statements is **MOST CORRECT** regarding errors and fraud?

   A. Errors are always fraud and frauds are always errors.
   B. Frauds occur more often than errors in financial statements.
   C. An error is unintentional, whereas fraud is intentional
   D. Auditors have more responsibility for finding fraud than errors.

9. Fraudulent financial reporting is **MOST LIKELY** to be committed by whom?

   A. The company's auditors.
   B. Line employees of the company.
   C. Outside members of the company's board of directors.
   D. Company management.

Continued.....

10. The auditor gives an audit opinion on the fair presentation of the financial statements and associates his or her name with it when, on the basis of adequate evidence, the auditor concludes that the financial statements are unlikely to mislead:

    A. a prudent user.
    B. the reader.
    C. management.
    D. investors.

11. Evaluations of financial information made by a study of plausible relationships among financial and nonfinancial data involving comparisons of recorded amounts to expectations developed by the auditor" is a definition of:

    A. tests of balances.
    B. analytical procedures.
    C. tests of transactions.
    D. auditing.

12. Which of the following statements about confirmations is **TRUE**?

    A. Confirmations are expensive and so are often not used.
    B. Confirmations are sometimes not reliable and so auditors use them only as necessary.
    C. Confirmations may inconvenience those asked to supply them, but they are widely used.
    D. Confirmations are required for several balance sheet accounts but no income statement accounts.

13. What is the overall objective of audit documentation?

    A. Provide additional support of recorded amounts to the client.
    B. Provide reasonable assurance that the audit was conducted in accordance with standards.
    C. Provide a basis for reviewing the work of subordinates.
    D. Defend against claims of a deficient audit.

14. The purpose of an engagement letter is to _____.

    A. document the audit firm's responsibility to external users of the audited financial statements.
    B. notify the audit staff of an upcoming engagement so that personnel scheduling can facilitated.
    C. document the terms of the engagement in writing to minimize misunderstandings.
    D. emphasize management's responsibility for approving the audit program.

Continued.....

15. Narratives, flowcharts, and internal control questionnaires are three common methods of _____.

    A. testing the internal controls
    B. documenting the auditor's understanding of a client's organizational structure
    C. designing the audit manual and procedures
    D. documenting the auditor's understanding of internal controls

SECTION B: TRUE OR FALSE QUESTIONS (15 marks). Each question carries 1 mark. Answers for this section should be written on the answer booklet provided.

16. To be effective, an internal audit department must be independent of the entity.

17. Auditing is demanded because it plays a valuable role in monitoring the contractual relationships between the company and its shareholders, managers, employees, and creditors.

18. An independent examination by an accountant ensures that financial statements are objective, free from bias and manipulation and relevant to the need of the users e.g shareholders.

19. Inland Revenue Board relies on audited financial statements for computation of taxation.

20. Auditing and accounting standards guide the auditor's work and serve as measures of the quality of the auditor's performance.

21. Professional accountants in public practice are expected to comply with approved standard on accounting in the performance of their audits under all reporting frameworks.

22. In the preliminary engagement, for a new client, auditors are required to communicate with the previous auditor and frequently conduct background checks on top management.

23. In certain situations, the auditors' report may be modified by adding an opinion paragraph to highlight a matter which is included in a note to the financial statements.

24. A company is allowed not to comply with the accounting standard when compliance with a particular approved accounting standard affects the true and fair view of the financial statements.

25. Material misstatement in the financial statements exists when the misstatement is unlikely to affect the decisions of a reasonable user.

Continued.....

26. Internal control is designed and implemented by a company's management.

27. A well-designed information system that is operating effectively can reduce the risk of material misstatement.

28. Audit evidence are all the accounting records and documents underlying the financial statements.

29. Appropriateness is the measure of the quantity of audit evidence

30. The primary objective of an audit committee is to assist the management team in fulfilling its responsibilities relating to accounting and reporting practices of the company.

SECTION C: ESSAY QUESTIONS (70 Marks). Answers for this section should be written on the answer booklet provided.

QUESTION 1

Explain the followings with regards to the provisions of Companies Act 1965.

i. Appointment of auditors. (4 Marks)

ii. Removal of auditors (3 Marks)

iii. Resignation of auditors. (6 Marks)

iv. Reporting duties of auditors (4 Marks)

v. Access to information (Auditor rights) (3 Marks)

[TOTAL 20 MARKS]

QUESTION 2

"ISA 500, Audit Evidence, classifies assertions into seven categories which are existence, occurrence, rights and obligations, measurement, valuation, completeness and presentation and disclosure".

Required:

a) Define management assertions (3 Marks)

b) Explain **SEVEN (7)** management assertions. (17 Marks)

[TOTAL 20 MARKS]

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QUESTION 3

PART A

"Materiality is an important element in determining the appropriate type of report for a given set of circumstances. The effect of materiality are obvious in the on audit report prepared by the auditor."

Required:

a) Define materiality.

(2 Marks)

b) State the different types of report relating to the materiality issues below:

i. Amounts are immaterial.

(2 Marks)

ii. Amounts are material but do not overshadow the Financial Statements as a whole.

(2 Marks)

iii. Amounts are so material or so pervasive that overall truth and fairness of the Financial Statements is in question.

(2 Marks)

PART B

"In certain situations, the auditors' report may be modified by adding an explanatory paragraph to highlight a matter which is included in a note to the financial statements. The explanatory paragraph that highlights matters in a note to the financial statements is sometimes referred to as the *emphasis of matter* paragraph."

Required:

Explain **THREE (3)** situations where the auditor would issue a modified unqualified auditors' report with an emphasis of matter paragraph.

(10 Marks)

[TOTAL 18 MARKS]

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QUESTION 4

PART A

"Management has the responsibility to maintain controls that provide reasonable assurance that adequate control exists over the company's assets and records. Proper internal control not only ensures that assets and records are safeguarded, but also creates an environment in which efficiency and effectiveness are encouraged and monitored. Management also needs a control system that generates reliable information for decision making."

Required:

Explain **THREE (3)** inherent limitations of internal control.

(3 Marks)

PART B

Compare and contrast between internal and external auditors.

(9 Marks)

[TOTAL 12 MARKS]

End of Page.